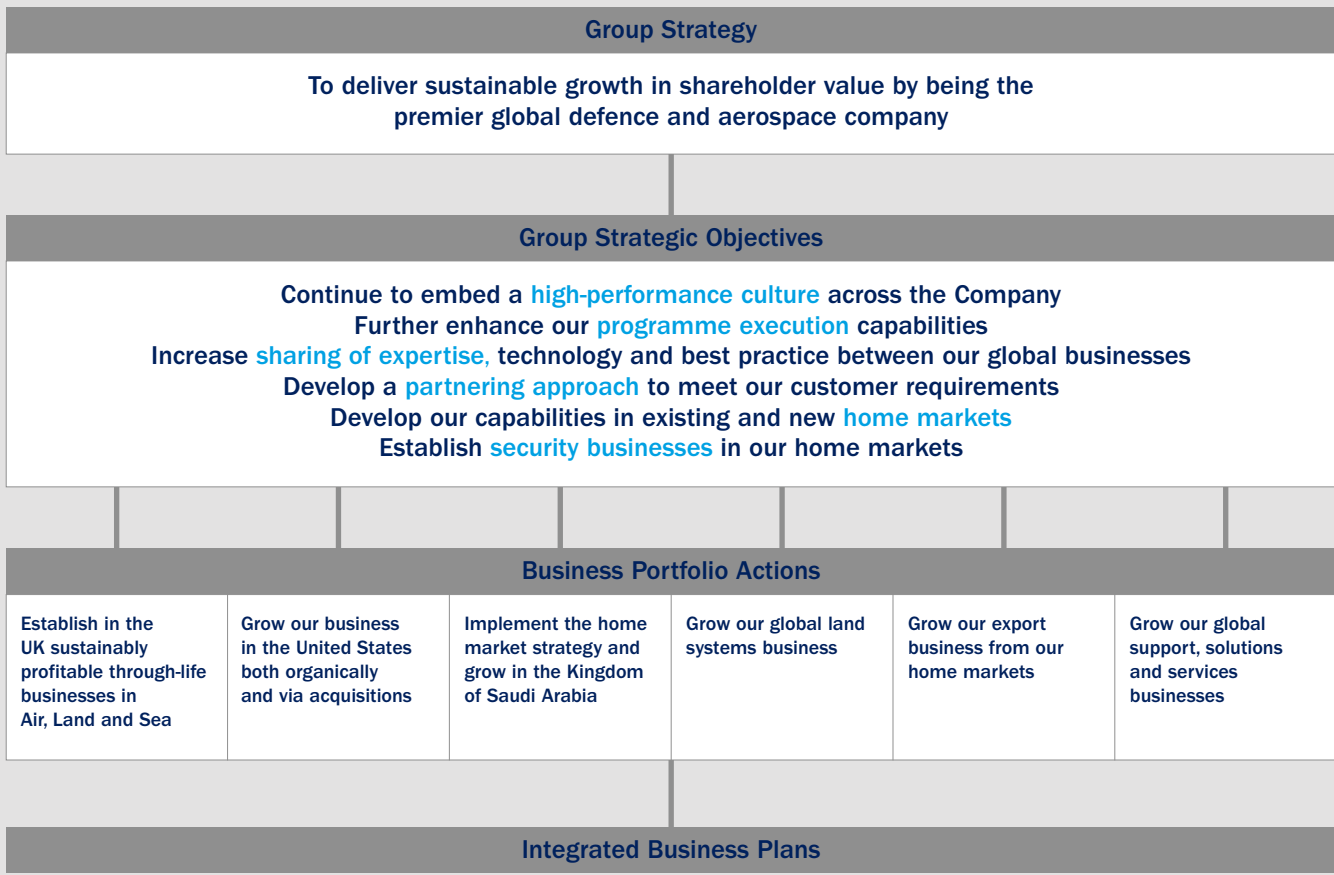


A strategy that **delivers growth**

Our Group strategy is 'to deliver sustainable growth in shareholder value by being the premier global defence and aerospace company'. We deliver this through our Group strategic objectives, business portfolio actions and integrated business plans. The six Group strategic objectives are championed by the Executive Committee and apply across all of our businesses, while the business portfolio actions are championed by the relevant Executive Committee member and are delivered by the businesses either separately or jointly. Both are underpinned by our integrated business plans.



The following three case studies demonstrate examples of how we are implementing our strategy.

Strategy

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Group strategic objectives

Each year the Group strategic objectives are reviewed and refined to ensure that they remain relevant. For 2008 we have clarified the intent of the objective 'Develop our capabilities in emerging growth markets' and separated it into two:

- 'Develop our capabilities in existing and new home markets', focuses on developing the Group's multi-home market strategy; and
- 'Establish security businesses in our home markets', highlights the importance of this adjacent market opportunity.

Continue to embed a high-performance culture across the Company

Having a high-performance culture underpins our ability to achieve our strategy. This means setting challenging targets and reviewing our performance so that we deliver against our commitments. This is underlined by demonstrating high standards of business conduct in line with our ethical principles.

Further enhance our programme execution capabilities

Excellence in programme execution remains at the core of the successful delivery of our strategy, both in terms of executing on our existing contracts and winning new business. Being recognised by our customers as their reliable partner of choice to deliver to their expectations on time and budget will ensure we deliver continuing performance and growth of our business.

Increase sharing of expertise, technology and best practice between our global businesses

As our customers' requirements increasingly demand the ability to offer through-life and capability solutions, we are committed to finding ways to increasingly collaborate across our business and project boundaries to deliver these solutions. We need to continue to build on our ability to work across the lines of business that span our six home markets.

Develop a partnering approach to meet our customer requirements

Mutually beneficial trust-based partnering relationships with our customers are increasingly important to the long-term future and stability of our business. Many of our customers are recognising the long-term nature and strategic importance of defence procurements. We are responding to this by building our partnering capabilities in ways such as working in integrated project teams and embedding our activities alongside customers.

Develop our capabilities in existing and new home markets

We continue to evaluate ways in which we can develop our in-country presence, both in our six existing home markets and in potential new home markets.

Establish security businesses in our home markets

In 2007, we evaluated opportunities to grow into related new market segments, providing we could lever our core technologies and capabilities appropriately. We decided to focus on establishing security businesses in our home markets.

Key Performance Indicators (KPIs)

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The Group delivers its strategy through the Group strategic objectives detailed opposite, business portfolio actions and integrated business plans. The strategy is also supported by ten short-term objectives agreed annually by the Executive Committee (see page 11) which address the key challenges in delivering the strategy in the year ahead. The objectives are directly underpinned by a set of financial and non-financial performance indicators that are regularly reported to the Board and linked to executive remuneration. These KPIs are detailed on pages 25 and 26 and provide a succinct and meaningful measurement system to assess enterprise performance and continuous improvement in line with our strategy.

Risks

p44

Effective management of risk and opportunity is essential to the delivery of the Group's objectives and achievement of sustainable shareholder value. The Group's approach to risk management is to remove or reduce the likelihood and effect of risks before they occur, and deal effectively with problems if they do.

Further information on the risk management processes and procedures, and the committees involved in the management of risk, is given on pages 44 and 45.

Resources

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The key resources and arrangements the Group uses to achieve its strategic objectives include:

- the people it employs;
- relationships with its customers, subcontractors and other suppliers;
- research and development;
- intellectual property; and
- its capital structure.

Each of these is discussed further on pages 51 and 52, with the exception of the Group's capital structure which is explained on page 22 in the Financial review.